

VZCZCXR08428

PP RUEHAG RUEHAST RUEHBI RUEHCI RUEHDF RUEHIK RUEHLH RUEHLN RUEHLZ

RUEHNNEH RUEHPW RUEHROV RUEHVK RUEHYG

DE RUEHAA #1484/01 3170647

ZNR UUUUU ZZH

P 120647Z NOV 08

FM AMEMBASSY ASHGABAT

TO RUEHC/SECSTATE WASHDC PRIORITY 1848

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

RUCNCIS/CIS COLLECTIVE

RUCNMEM/EU MEMBER STATES COLLECTIVE

RUEHAK/AMEMBASSY ANKARA 4490

RUEHBJ/AMEMBASSY BEIJING 2302

RUEHKO/AMEMBASSY TOKYO 2167

RUEHIT/AMCONSUL ISTANBUL 2738

RHMFIUU/CDR USCENTCOM MACDILL AFB FL

RUEAIIA/CIA WASHDC

RHEBAAA/DEPT OF ENERGY WASHDC

RUCPDOC/DEPT OF COMMERCE WASHDC

RHEFDIA/DIA WASHDC

RUEKJCS/Joint STAFF WASHDC

RHEHNSC/NSC WASHDC

RUEKJCS/SECDEF WASHDC

RUEHVEN/USMISSION USOSCE 3058

UNCLAS SECTION 01 OF 07 ASHGABAT 001484

SIPDIS

SENSITIVE

STATE FOR SCA/CEN, EEB

PLEASE PASS TO USTDA DAN STEIN

ENERGY FOR EKIMOFF/THOMPSON

COMMERCE FOR HUEPER

E.O. 12958: N/A

TAGS: PGOV PREL EPET PHUM TX

SUBJECT: TURKMENISTAN: SCENESETTER FOR THE VISIT OF  
COORDINATOR FOR EURASIAN ENERGY DIPLOMACY AMBASSADOR STEVEN  
MANN

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: Embassy Ashgabat warmly welcomes your visit to Turkmenistan during the 13th Turkmenistan International Oil and Gas Conference as an important opportunity to advance our bilateral dialogue concerning the further development of Turkmenistan's energy resources. Now approaching his second year of presidency, Berdimuhamedov is increasingly self-confident. We believe his instincts are generally right, even if his understanding is elementary and his implementation timelines unrealistically quick. Turkmenistan will gradually bring its standards -- including educational and human rights -- more in line with international levels. But he's starting from almost zero with very few on his team who have the experience and capacity to implement the reforms he says he wants. Like many ex-Soviet governments, Turkmenistan relies too heavily on presidential decrees and the power of law-on-paper. The longer-term monumental task will be to change ingrained national political psychology, the entrenched bureaucracy, and the culture of rent-seeking. END SUMMARY.

¶3. (SBU) Nearly two years into the new era, it is clear Turkmenistan is becoming significantly different from the international bad-joke pariah state it was under the late President-for-Life Niyazov. But precisely what Turkmenistan is becoming is still a work in progress. Evidence increasingly suggests it could well one day become a responsible partner for the United States and a normal international player. Berdimuhamedov's fundamental policies have been promising. However, he faces an uphill struggle against political traditions that favor autocratic governance models and a bureaucratic capacity stunted by 15 years of Niyazovian repression and solipsism. The challenge will not be to get new reforms on the books -- Berdimuhamedov is already beginning to do this -- but rather, to change the attitudes and modi operandi of those officials responsible

for implementing the new policies.

#### ECONOMY AND FINANCE

¶4. (SBU) President Berdimuhamedov has stated repeatedly, in many fora, that he wants to develop an international-standard market economy and to promote foreign investment. To those ends, he has placed a new priority over the past eight months on promoting economic and financial reform. Turkmenistan has announced that it will re-denominate its currency in 2009, lopping off three zeros, and has already unified the country's dual exchange rates. The president has stated that some state enterprises will be privatized -- though not in "strategic" sectors like oil and gas, electricity, textiles, construction, transportation, and communications. He has signed a new foreign investment law, which, among other things, guarantees resident foreign businessmen and their families one-year, multi-entry visas, and approved changes to the tax code. The president divided the overworked Ministry of Economy and Finance into two bodies -- a Ministry of Economy and Development, and a Ministry of Finance, and he has created a Supreme Auditing Chamber with the goal of providing transparency in the budget process. In a notable development, the president also announced that he will abolish the opaque extrabudgetary funds that were prone under his predecessor to misuse and corruption. Finally, the state has slowly begun to raise the price of electricity and price of vehicle fuel. These measures could be part of an early effort to phase out the state's extensive and tremendously expensive subsidies system.

ASHGABAT 00001484 002 OF 007

¶5. (SBU) Even though the president has reshaped his bureaucracy, put in place the structures that theoretically should help promote a market economy, and opened Turkmenistan to cooperation with IFIs, the lack of basic understanding and bureaucratic capacity remains an enormous impediment to change. New reforms are being rolled out with inadequate preparation, understanding of their consequences and explanation -- and are leading to increased public dissatisfaction. USAID is working through its contractor, BearingPoint, to increase human capacity in several new government institutions, to prepare the strategy to support private sector development, and to support the introduction of International Financial Reporting Standards in Turkmenistan.

#### ENERGY

¶6. (SBU) Turkmenistan has world-class natural gas reserves, but Russia's near monopoly of its energy exports has left Turkmenistan receiving much less than the world price and overly beholden to Russia, although Gazprom has agreed to pay the "world price" starting in 2009. (NOTE: Despite this promise, Gazprom and Turkmenistan have yet to agree on precisely what this means and are still negotiating natural gas prices for 2009. END NOTE.) Pipeline diversification, including both a pipeline to China scheduled for completion in late 2009 and the possibility of resurrecting plans for Trans-Caspian and Trans-Afghanistan pipelines that would avoid the Russian routes, and construction of high-voltage electricity lines to transport excess energy to Turkmenistan's neighbors, including Afghanistan, would not only enhance Turkmenistan's economic and political sovereignty, but also help fuel new levels of prosperity throughout the region. Berdimuhamedov has told U.S. interlocutors he recognizes the need for more options and has taken the first steps to this end, but he also took the steps needed to increase the volume of gas exports to Russia, signing an agreement (with Russia and Kazakhstan) in Moscow in December 2007 to enlarge and rebuild a non-functioning Soviet-era Caspian littoral pipeline. While little progress has been publicized on this project, government officials and some foreign oil company officials maintain that plans are on track, with construction to begin in 2009. Berdimuhamedov

will require encouragement and assistance from the international community if he is to maintain a course of diversification in the face of ongoing Russian efforts to keep Turkmenistan from weaning itself away from Russia.

¶7. (SBU) Although Turkmenistan and Azerbaijan have made excellent progress over the past year in resolving many of the issues that had troubled their relationship, officials have been broadcasting signals in recent months that -- from Turkmenistan's perspective -- the relationship is still not trouble-free. Fundamentally, Turkmen leaders seem to believe that they have made most of the efforts at rapprochement over the last year, and are looking for signs that the Azeris are taking them seriously. It is more important than ever for the United States to continue its constructive role, urging the two sides to work together.

¶8. (SBU) One of the biggest challenges that Turkmenistan's hydrocarbon sector will have to face, if it is to succeed in pipeline diversification, is the need for increased natural-gas production. Turkmenistan produced a reported 72.3 billion cubic meters (bcm) in 2007, a figure that barely meets its existing domestic needs and export commitments. The president directed that production should increase to 81.5 bcm in 2008. Even larger increases will be needed as/if new

ASHGABAT 00001484 003 OF 007

pipelines come online. While Turkmenistan has welcomed foreign companies to work its offshore (primarily oil) Caspian blocks, it has up to now largely rejected allowing foreign energy companies to work its onshore gas fields, maintaining that it can handle the drilling itself. But onshore natural gas production offers some tough challenges, including ultra-deep, high-pressure, high-sulphur, sub-salt drilling, which requires special skills and technologies and massive investment. One Western analyst suggested that costs could run as high as \$100 billion over the next five years. No one outside of the Turkmen government believes Turkmenistan has either the skills or the financial resources needed. U.S. policy has been to promote onshore production by major Western oil companies. President Berdimuhamedov told visiting U.S. officials in September that foreign companies would not be permitted to work onshore. Given the technological challenges in extracting onshore gas, the policy could change in the future.

¶9. (SBU) Turkmen government policy and decision-making in the oil and gas sector remain cumbersome. In August, the framework for government activity in the hydrocarbon sector was shaken up by the adoption of a new Petroleum Law and a shuffling of personnel at the key state oil and gas entities.

Foreign energy companies operating in Turkmenistan view the new law as a good first step in making it easier to do business here, and see the State Agency for Management and Use of Hydrocarbon Resources' ("State Agency") central role in implementing the law as a sign that the government is getting more serious about doing business with foreign companies. The law includes new types of licensing arrangements, and new provisions apply some of the same protections given to production sharing agreement holders to service companies and sub-contractors. As with any new law, however, the ultimate test will be its implementation, which depends in large measure on the new team of officials appointed in the oil and gas sector shortly after publication of the law. Developments at the State Agency, which is intended to be a one-stop shop for IOCs wanting to do business in Turkmenistan, will weigh particularly heavily on the prospects for foreign companies. State Agency Director Yagshygeldi Kakayev continues to put his team, expanded to cover the agency's new responsibilities, in place. Even when fully staffed, the State Agency will be challenged in terms of the expertise needed to fulfill its mandate under the new law vis--vis the IOCs. Meanwhile, the process for consideration of at least some IOC offshore and onshore proposals has apparently ground to a halt as the government still looks for maximum flexibility in applying its policy.

## DEMOCRACY AND HUMAN RIGHTS

¶10. (SBU) President Berdimuhamedov has made a public commitment to bring Turkmenistan's laws and practices -- including those relating to human rights -- up to international standards. On his order, the country's legal, human rights and legislative bodies are working overtime to rewrite or draft more than 30 laws and codes, including on religion and civic organizations, family, criminal, and criminal procedure codes. In late September, a revised National Constitution was adopted. It included provisions for a strengthened and enlarged Mejlis (parliament), eliminated many of former President Niyazov's strange addenda, and contained some rights-related textual changes that the international community had suggested. Most notably, it eliminated the Halk Maslahaty (Peoples' Council), an oversized, bureaucratic, and largely rubber stamp body whose powers have largely been transferred to the Mejlis. A

ASHGABAT 00001484 004 OF 007

new law on election to the Mejlis has also been adopted, and elections to an expanded (now 125-seat) parliament will be held in December.

¶11. (SBU) In seeking to promote democratic development and strengthened respect for human rights, the Embassy is working with the newly empowered Institute of Democracy and Human Rights, which is one of the government bodies most open to and cooperative with foreign donors. We believe that this body, which has a director who clearly enjoys the trust of the president, can play a significant role. In January, the Ministry of Foreign Affairs agreed to USAID's proposal for cooperation with the Institute. Areas for cooperation include information exchange, the provision of legal and technical expertise, and support for increased access to information. The Institute has fully embraced USAID as a valued partner. Together with the Institute, USAID's partner, the International Center for Not-for-Profit Law, has laid out an ambitious plan for cooperation over the next year. Other USAID partners have made or are preparing to make other proposals based on feedback from the Institute.

¶12. (SBU) Although the president is making progress in overhauling Turkmenistan's laws, human rights practices continue to lag behind the president's intentions. RFE/RL reporters continue to experience considerable harassment from security forces, including efforts to disrupt the wedding of one reporter's son. Small evangelical Christian religious groups continue to experience problems with registration, and some unregistered groups have experienced harassment. We have heard reports that some individuals are being barred from travel abroad, although the government has been willing to reverse travel bans in a limited number of cases where there is a clear U.S. interest. While Berdimuhamedov in 2007 released Turkmenistan's former Grand Mufti, imprisoned since 2005 under charges of complicity in the 2002 attack, only a handful of other individuals, who were also imprisoned for alleged involvement in the attack have been released. Saparmurad Seidov, a named conspirator in the attack, who was released in October, was the most recent person freed.

## MEDIA

¶13. (SBU) While most of Turkmenistan's media remains state-controlled, President Berdimuhamedov has emphasized the need for reform, calling for more creativity and more international and political news to better inform readers and viewers. Simultaneously, however, he has noted that a principal role of the media is to stimulate patriotism and support for reform efforts, and there is no official discussion of allowing independent media to develop. Within this context, state media have shown gradually increasing openness, but still much uncertainty and a lack of capacity in attempting to fulfill the president's demands. In particular, the Ministry of Culture and Broadcasting has

asked specifically for U.S. experts and assistance to further develop Turkmenistan's news media. This has led to unprecedented Embassy access to and contact with state media, but also so far to only minimal improvements in newsgathering, editing and production techniques. Both broadcast and print media have started to cover a wider range of topics, but would not even think of challenging or criticizing government policies. These limits are a result of strict self-censorship -- no one wants to be the first to try an "unapproved" innovation. We believe there remains potential for coaxing Turkmenistan's media further along the road to providing more and better information. A next step in this regard could be continued and expanded partnerships

ASHGABAT 00001484 005 OF 007

with U.S. and other foreign media outlets.

#### EDUCATION

¶14. (SBU) President Berdimuhamedov and his officials repeatedly emphasize that reforming the education sector has been one of their top priorities, and he has said to U.S. visitors the hardest task is to change the mentality of a people. Standard schooling has returned to the ten-year model of the Soviet era from Niyazov's nine-year standard. University education has returned to the previous standard of five years, instead of Niyazov's model of two years of study and two years of work. Graduate study programs resumed in September following a many-year hiatus, but there appears to be a real lack of expertise and direction to make these successful. Many new university buildings have been built or are under construction. The country is opening "state of the art" grade schools and secondary schools, but seems to neglect teacher training and other programmatic aspects. Recently, the president announced that any new school construction project will only be considered completed when the building has full Internet access.

¶15. (SBU) And yet, to date, the president's (and government's) focus has been more on improving the shell than on reforming the core of the educational system. While there has been little emphasis placed up to now on retraining teachers or on modernizing the curricula, there have been some clear signs, during recent visits of delegations from both Texas A&M and Chadron State College (Nebraska), that the government recognizes the links between human capacity and curricula and may be considering curricula changes for institutions of higher education. In particular, the Minister of Education is eager to re-start a Texas A&M partnership that would reform Turkmenistan's sole business education program to American standards over the next 3-4 years (this project is being fine-tuned for review by the Government of Turkmenistan). At lower levels, however, the system -- including some hard-core hold-outs like the infamous Nury Bayramov, the Ministry of Education's International Relations head -- continues to constrain individual initiative and block suggestions for improvements and reforms from reaching the Minister. In particular, many returned exchange participants are prevented or discouraged from returning to their places of work or study. Despite these problems, there have been some glimmers of interest in a Bolashak-like program in which the government would provide scholarships to Turkmen students to attend U.S. universities.

¶16. (SBU) Action on U.S.-sponsored educational programs is focused in USAID and the Embassy's Public Diplomacy section. More than 100 Turkmenistan citizens are participating in 2008 in the Embassy's FLEX (high-school), UGRAD (college-level), Turkmenistan AUCA Scholarship program (TASP), Teachers Excellence and Achievement (TEA), Muskie, Fulbright and Humphrey exchange programs. Through its Quality Learning Program, USAID is seeking to support efforts to improve teaching and student assessment methodologies, increase teachers' participation in curriculum and education policy development, and promote development of transparent and efficient school finance and management systems. In July,

USAID proposed to assist Turkmenistan to improve pre-service and in-service teachers skills and content for secondary math, science and advanced literacy courses, and currently awaits the ministry's feedback.

#### FOREIGN POLICY

ASHGABAT 00001484 006 OF 007

¶17. (SBU) Like Niyazov, Berdimuhamedov has emphasized "neutrality" as the hallmark of the country's foreign policy. Nevertheless, Berdimuhamedov has put an unprecedented emphasis on foreign affairs to repair Turkmenistan's international and regional relations and to become a respected player on the international stage. Under the president's leadership, Turkmenistan has reached out to participate actively in regional organizations. He has met with all the leaders in the region, as well as with those of other countries of importance to Turkmenistan. China has a strong and growing commercial presence in Turkmenistan, and continues to court the president through a series of high-level commercial and political visits, including a July 2007 Berdimuhamedov trip to Beijing focused on natural gas and pipeline deals, followed by two visits by President Hu Jintao to Ashgabat. Presidents Berdimuhamedov and Gul (Turkey) have exchanged visits, but bilateral relations continue to be colored more by the image of Turkey's lucrative trade and construction contracts that are eating up large amounts of money from the national budget. Berdimuhamedov has held positive meetings with high-level leaders of international organizations (including both the UN and the Organization for Security and Cooperation in Europe) and IFIs that have led to productive, cooperative relationships. UN Special Rapporteur on Religion Asma Jahangir met with Berdimuhamedov in early September, and OSCE's High Commissioner on National Minorities Knut Vollebaek visited in April.

¶18. (SBU) Berdimuhamedov has held positive meetings with high-level U.S. officials and is well-disposed toward the United States. He made his first trip to the United States as president to participate in the UNGA session in September 2007, where he also met with Secretary of State Rice. In November 2007, Secretary of Energy Bodman met with Berdimuhamedov in Ashgabat, and Berdimuhamedov's meeting with President Bush during the April Bucharest NATO summit received extensive and very positive media coverage in Turkmenistan. Berdimuhamedov made his first visit to EU and NATO headquarters in Brussels in November 2007.

#### REGIONAL POLICY

¶19. (SBU) Accompanying the president's focus on reaching out to Turkmenistan's near and more distant neighbors has been an increased effort to participate in and cooperate with regional fora. During President Berdimuhamedov's tenure, Turkmenistan has become an increasingly active player in a number of regional fora, including the (counter-narcotics) Central Asian Regional Information and Coordination Center, the Central Asian Trade Investment Framework Agreement mechanism (TIFA), and the European Union's Central Asian Troika process (Turkmenistan hosted the troika meeting and wanted to host TIFA). Cognizant of its neutral status, it has bolstered its previous participation in meetings of the Commonwealth of Independent States and in its participation -- as an observer -- in the Shanghai Cooperation Organization, as well as in NATO with the status of a Partnership-for-Peace country. Turkmenistan is also participating in regional reconstruction efforts in Afghanistan and sponsoring a number of Afghan students at its universities and pedagogical institutes. In early April, the Turkmen government agreed to bolster by 2010 the electricity it is already selling to Afghanistan by an additional 300 megawatts. The president also agreed to extend the current price at which Turkmenistan is selling electricity to Afghanistan -- 2 cents per kilowatt hour -- to 2010.

COUNTER-NARCOTICS COOPERATION

¶20. (SBU) Berdimuhamedov's efforts to distance himself gradually from Niyazov's "Golden Age," we-have-no-problems rhetoric, have led him to acknowledge publicly that Turkmenistan has serious problems with narcotics trafficking and addiction, primarily opiates from Afghanistan. In January 2008, he established and funded the new State Counter-Narcotics Service with DEA-like responsibilities for both interdiction and demand-reduction efforts.

Berdimuhamedov put in charge an activist official, Murat Islamov, that the international donor community both respects and trusts. While Islamov already has a headquarters building, he is literally building his new service from the ground up. During a meeting with Embassy officers in April, he welcomed whatever training and equipment the United States can provide. With a promised infusion of \$10 million in CENTCOM counter-narcotics funds in FY 09 and the possibility of an increased amount in FY 10, the Embassy country team is now working with SCNS to focus efforts to most effectively provide assistance to Turkmen counter-narcotics efforts. These efforts have led to the recent arrival of a TDY DEA special agent to pave the way for a permanent DEA presence.

SECURITY

¶21. (SBU) The U.S. security relationship with Turkmenistan continues to unfold, with slow but consistent cooperation. Although basing is not an option, Turkmenistan remains an important conduit for the U.S. military to Afghanistan. Maintaining blanket overflight permission and the military refueling operation at Ashgabat Airport remains a key U.S. goal. CENTCOM and Turkmenistan's military maintain an active military-to-military cooperation plan and a productive counter-narcotics program which has funded training and completion of two border-crossing stations on the Iranian and Afghan borders. A third border-crossing station is nearing completion at Farap on the Uzbekistan border (under the supervision of the Nevada National Guard operating through the State Partnership Program), with two more to follow funded through CENTCOM's military cooperation program. With the assistance of the Embassy's EXBS program, the Embassy works to strengthen Turkmenistan's border security and to increase its ability to interdict smuggling of weapons of mass destruction.

¶22. (SBU) Current U.S. security assistance programs focus on improving the communications capability of the Turkmenistan armed forces in the areas of emergency response and border security, English language ability, and in building a future leadership with western principles. The EXBS program has provided support for operational upkeep of the former USCG Cutter Point Jackson, a U.S. Excess Defense Article donation to the State Border Service in 2001, which is one of the few operational vessels in the Turkmenistan maritime security forces. Turkmenistan has received FMF/IMET since 1997 and in FY08 received \$0/\$300K.

CURRAN